

AR16



**1969**

# **ANNUAL REPORT**

**INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.**



INTERPROVINCIAL  
STEEL  
AND  
PIPE  
CORPORATION  
LTD.

## DIRECTORS

|                                    |                                                             |
|------------------------------------|-------------------------------------------------------------|
| D. R. Annett, Toronto.....         | President, Annett & Company Limited                         |
| W. M. Elliott, Q.C., Regina.....   | Partner, MacPherson, Leslie & Tyerman                       |
| D. B. Furlong, Regina.....         | General Manager, Saskatchewan Power Corporation             |
| J. V. King, Regina.....            | President, Continental Construction Ltd.                    |
| R. B. Love, Calgary.....           | Partner, Macleod, Dixon, Burns, Love, Leitch & Lomas        |
| H. A. Martin, Vancouver.....       | President, Western Construction & Engineering Research Ltd. |
| C. S. McLeod, Regina.....          | Executive Vice-President, Western Tractor Ltd.              |
| A. Hoadley Mitchell, Edmonton..... | President, Mitchell & Associates Ltd.                       |
| G. P. Osler, Toronto.....          | President, Unas Investments Limited                         |
| F. E. Shaw, Sarnia.....            | Interprovincial Steel and Pipe Corporation Ltd.             |
| G. C. Solomon, Regina.....         | President, Western Tractor Ltd.                             |
| J. N. Turvey, Regina.....          | Interprovincial Steel and Pipe Corporation Ltd.             |
| A. T. Wakabayashi, Regina.....     | Deputy Provincial Treasurer, Government of Saskatchewan     |

## EXECUTIVE OFFICERS

|                      |                                 |
|----------------------|---------------------------------|
| F. E. Shaw.....      | <i>Chairman of the Board</i>    |
| J. N. Turvey.....    | <i>President</i>                |
| J. D. MacLennan..... | <i>Vice-President - Finance</i> |
| L. G. Welch.....     | <i>Vice-President - Sales</i>   |
| B. E. Yeo.....       | <i>Secretary</i>                |
| W. H. Boulding.....  | <i>Treasurer</i>                |

## REGISTRAR AND TRANSFER AGENTS

|                                                   |                              |
|---------------------------------------------------|------------------------------|
| Common Shares.....                                | }.....Montreal Trust Company |
| Preference Shares.....                            |                              |
| First Mortgage Sinking Fund Bonds.....            |                              |
| First Mortgage Sinking Fund Bonds (Series B)..... |                              |
| First Mortgage Sinking Fund Bonds (Series C)..... |                              |
| Convertible Debentures.....                       | Canada Trust Company         |

## OFFICES

Head Office and Plant Location: P.O. Box 1670, Regina, Canada

### Sales Offices:

|                                   |                                       |                                    |
|-----------------------------------|---------------------------------------|------------------------------------|
| Regina — Head Office              | Calgary — 301 Petro Chemical Building | Edmonton — 702 Centennial Building |
| Vancouver — 1455 West Georgia St. | Winnipeg — 870 Bradford St.           | Toronto — Ste. 828, 67 Yonge St.   |



# INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

## 13<sup>TH</sup> ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1969

### HIGHLIGHTS OF THE YEAR

| Item                                             | 1969         | 1968         | 1967         | 1966         | 1965         | 1964         | 1963         | 1962         |
|--------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales.....                                       | \$20,483,348 | \$15,515,000 | \$14,658,000 | \$17,329,000 | \$17,969,000 | \$13,304,000 | \$12,948,000 | \$10,993,000 |
| Profit before Depreciation & Deferred Income Tax | \$ 2,038,295 | \$ 1,332,114 | \$ 2,372,122 | \$ 4,179,150 | \$ 3,554,546 | \$ 2,434,104 | \$ 2,796,367 | \$ 505,949   |
| Provision for Depreciation.....                  | \$ 990,138   | \$ 916,874   | \$ 770,215   | \$ 753,180   | \$ 751,478   | \$ 633,072   | \$ 586,395   | —            |
| Net Profit before Deferred Income Tax.....       | \$ 1,048,157 | \$ 415,240   | \$ 1,601,473 | \$ 3,425,970 | \$ 2,803,068 | \$ 1,801,032 | \$ 2,209,972 | \$ 505,949   |
| Deferred Income Tax.....                         | \$ 514,120   | —            | —            | —            | —            | —            | —            | —            |
| Net Profit after Deferred Income Tax.....        | \$ 534,037   | 415,240.     | —            | —            | —            | —            | —            | —            |
| Net Profit Per Share                             |              |              |              |              |              |              |              |              |
| — Before Deferred Income Tax.....                | \$ .31       | \$ .09       | \$ .51       | \$ 1.17      | \$ 1.02      | \$ .67       | \$ .87       | \$ .20       |
| — After Deferred Income Tax.....                 | \$ .13       | —            | —            | —            | —            | —            | —            | —            |
| Number of Common Shares.....                     | 2,858,730    | 2,849,051    | 2,846,651    | 2,832,731    | 2,740,224    | 2,702,481    | 2,554,580    | 2,552,000    |
| Working Capital.....                             | \$ 5,752,206 | \$ 7,359,920 | \$ 8,072,670 | \$ 7,236,269 | \$ 4,892,305 | \$ 1,045,387 | \$ 718,492   | \$( 717,910) |
| Long-Term Debt.....                              | \$ 7,833,840 | \$10,833,819 | \$ 9,916,762 | \$10,495,062 | \$12,030,563 | \$11,150,000 | \$10,105,000 | \$11,005,000 |
| Shareholders' Equity.....                        | \$23,101,793 | \$22,656,778 | \$22,384,507 | \$20,891,548 | \$15,030,851 | \$12,152,684 | \$10,919,108 | \$ 8,705,137 |
| Equity Per Preference Share.....                 | \$ 21.30     | \$ 21.30     | \$ 21.30     | \$ 21.30     | —            | —            | —            | —            |
| Equity Per Common Share.....                     | \$ 7.15      | \$ 7.02      | \$ 6.93      | \$ 6.44      | \$ 5.49      | \$ 4.50      | \$ 4.27      | \$ 3.41      |



# DIRECTORS REPORT

## TO THE SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your Company for the year ended August 31, 1969, together with the financial statements and your auditors' report.

The highest sales volume in the history of the Company was achieved during the year under review, with dollar sales volume reaching a record \$20,483,384. Net profit before income tax amounted to \$1,048,157 as compared to \$415,240 in the previous year. Although the earnings for the year showed a significant improvement over the previous year, prices tended to limit profits. In June of 1969, line pipe prices in Western Canada were increased by 7% on sizes up to 16" diameter. The effect of this increase is reflected in the first quarter earnings for the current year. Sales volume in the first quarter of the current fiscal year, to November 30, 1969 amounted to \$6,815,826 and net profit before income tax amounted to \$1,131,447.

The dramatic recovery in earnings potential, with first quarter earnings in the current fiscal year higher than total earnings for the year ended August 31, 1969, is the result of an improvement in net mill selling prices, together with a strong market demand for IPSCO products and improved production efficiencies. New production records were set in all operating

divisions last year (melt shop, rolling mills and pipe mills) and these records have all been exceeded during the first quarter of the current fiscal year. The improvement in production efficiency has assisted in offsetting increased costs for materials and labour.

In achieving a record sales volume last year, ingot production was held at a capacity level. Actual production amounted to 104% of rated capacity. In addition, inventories were reduced last year to meet growing market demand. In order to keep pace with market growth, IPSCO announced, on November 23, 1969, a \$1,500,000 expansion program which is currently under way. A third electric furnace, which was purchased in 1966 at a cost of \$256,000 is being installed. This furnace will be in production during April of 1970, boosting ingot capacity to 210,000 tons per annum. A second large diameter spiral weld pipe mill has been purchased and will be installed during August of 1970, doubling large diameter pipe capacity to 96,000 tons per annum.

Last year the \$2,000,000 loan for the initial spiral pipe mill was repaid and long-term debt was reduced by \$1,049,979. The \$1,500,000 expansion program will be financed by utilizing interim bank financing in the amount of \$1,000,000, with the balance of \$500,000 drawn from working capital. Under today's conditions in monetary markets it was felt that it was not



desirable to seek long-term debt financing, particularly on this type of expenditure which results in increased earnings over a relatively short period.

Prospects for the current year are most encouraging. Dollar sales volume in the first quarter, to November 30, 1969, was 85% higher than for the comparable period last year. The Company currently has the strongest forward order position in its history and a capacity level of steel production will be required through the winter months. Additional steel capacity will be available in April of 1970, following "break-in" of the third electric furnace. The Sales Department is confident that this additional steel capacity will be required to service markets for IPSCO products.

By September of 1970, spiral pipe making capacity will be doubled. Based on large diameter pipe markets experienced over the last ten years, this expanded capacity will be equivalent to approximately 20% of average annual demand in Canada for large diameter pipe. Although there has been a relatively high level of demand for large diameter pipe over the last decade, several important developments within the past year will have a profound effect on this market during the 1970's. The prospect of a second major natural gas transmission system in Western Canada has already resulted in accelerated exploration and development programs. The construction of this transmission line will require further development of gas fields in Alberta and new gathering systems to meet increased demand for natural gas. The discovery of vast oil and gas reserves in Alaska has already opened up new markets for pipe and related steel products. In addition to the 800 mile, 48" pipeline that will be under construction in 1970 from Prudhoe Bay to Valdez, several major companies in the petroleum and natural gas industries are actively developing plans for transmission lines to link the resources of Alaska and the Northwest Territories to existing systems serving the Canadian and United States' markets. IPSCO has participated in a \$1,500,000 research program through supply of 48" diameter API X-60 pipe which is currently undergoing tests in perma frost at the mouth of the McKenzie River. These studies are designed to evaluate the feasibility of a 1,600 mile crude oil pipeline from Alaska to Edmonton, following the McKenzie River valley. Separate studies by the major gas transmission companies are also well advanced on the feasibility of gas pipelines from Alaska through the Northwest Territories and across the prairies to bring the gas reserves in these areas to Canadian and United States' markets.

The emergence of these new sources of supply, together with the rapidly growing North American

market for petroleum and natural gas, suggests strongly that the 1970's market for large diameter pipe will be unequalled in the history of pipelining in Western Canada. The advent of a Continental Oil Policy, which is being actively pursued by both the Canadian and United States Governments, is expected to add impetus to pipeline developments in Western Canada, over and above the prospects for major systems referred to above.

## SALES

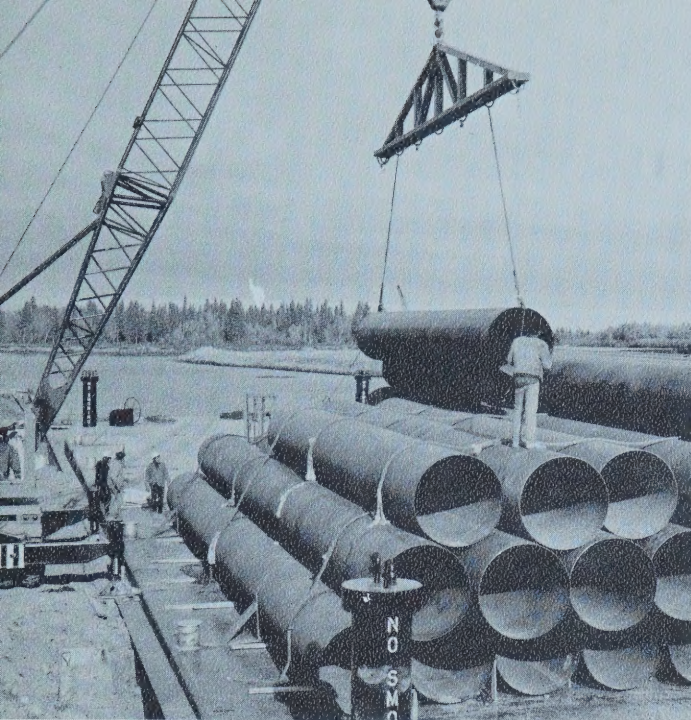
A record volume of sales was achieved by IPSCO last year. Total dollar sales amounted to \$20,483,348 for the year ended August 31, 1969, an increase of 32% over the 1968 dollar sales volume. Tonnage sales showed a similar increase to 122,397 tons from 95,182 tons in 1968, representing an increase of 29%. Overall sales last year required a capacity operation in the melt shop, together with a significant reduction in semi-finished and in-process inventories. Dollar sales trends over the last eight years are as follows:

| Year Ended<br>August 31 | Total Sales<br>Volume | Percentage Change<br>Over Previous Year |
|-------------------------|-----------------------|-----------------------------------------|
| 1962                    | \$10,993,000          | + 54                                    |
| 1963                    | 12,948,000            | + 18                                    |
| 1964                    | 13,304,000            | + 3                                     |
| 1965                    | 17,969,000            | + 35                                    |
| 1966                    | 17,329,000            | - 4                                     |
| 1967                    | 14,657,000            | - 16                                    |
| 1968                    | 15,515,000            | + 6                                     |
| 1969                    | 20,483,000            | + 32                                    |

*IPSCO spiral weld large diameter pipe, in continuous eighty foot lengths, has the added advantage of superior straightness and roundness. These are important qualities in lining-up and field welding.*







*Last July IPSCO 48" diameter API X-60 pipe was shipped to Hay River in the Northwest Territories. The above photo, courtesy of Bechtel Corporation, shows the loading of pipe on barges at Hay River for shipment to the Canadian Arctic.*

The limiting factor in tonnage sales volume last year was availability of steel ingot and although a record sales volume was achieved, market demand exceeded a capacity rate of production in the melt shop. Sales of tubular products for the year ended August 31, 1969 increased 26% in tonnage volume and 34% in dollar volume over the previous year. Sales of API line pipe in the size range from 2" to 16" were slightly lower than that recorded in 1968, due primarily to the fact that there were no large project orders in this size range last year. The tonnage and dollar volume of API spiral large diameter pipe sales last year increased by ten times over the 1968 levels when this product was being introduced to the market. API spiral has met with excellent market acceptance and IPSCO spiral is now installed in a large number of pipeline systems carrying petroleum and natural gas. The introduction and acceptance of this product to the North American market is now complete and the addition of a second spiral mill is based on expanding IPSCO's share of the large diameter pipe market rather than the more complex problem of introducing a new product. The Canadian market demands a very high specification in the manufacture of large diameter pipe. API grades up to X-65, the highest grade of pipe in use today, are commonly required. The steel and pipe making technology necessary in meeting API X-65 specifications have been developed at IPSCO and this experience is available for the second spiral mill.

Oil and gas well casing sales last year increased by 132% over 1968 sales volume. Sales of hollow structural tubing increased by 30% over the 1968 volume. The market for the full range of IPSCO tubular products last year was strong, due primarily to the continuing development of the petroleum and natural gas industries in Western Canada.

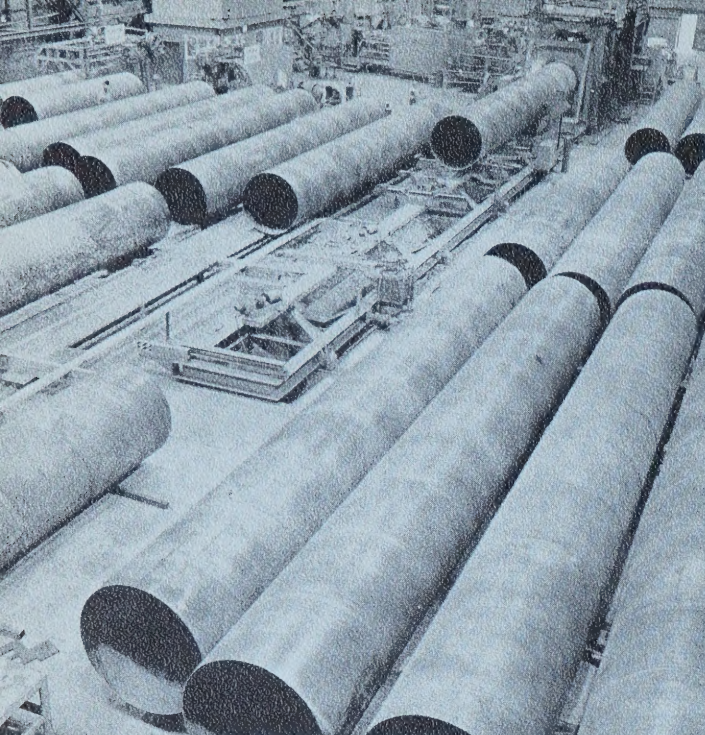
Sales of flat steel products similarly increased significantly during the year under review, recording a 37% increase in tonnage and 31% in dollar volume over 1968 levels. Again, availability of ingot for further processing was a limiting factor in servicing increased demand for steel products.

Prospects are most encouraging for sales during the current year. First quarter sales volume, to November 30, 1969 is at a record high of \$6,815,826 on 35,442 tons. This compares with the first quarter of last year when dollar volume amounted to \$3,680,633 on tonnage sales of 21,850. It is interesting to note that overall sales in the first quarter of this year resulted in an average selling price per ton of \$192 as compared to \$168 per ton in the first quarter of last year, representing an increase of 14%. Increased value per ton in product sales reflects changes in product mix, with a higher percentage of tubular product sales, together with increases in selling prices in both tubular and steel products. In June of 1969, line pipe prices in Western Canada were increased by 7%. Of equal importance, the published list prices now apply on all orders up to 2,000 tons, as compared to the previous level of 1,000 tons. This revision to 2"-16" line pipe prices is fully reflected in sales

*This Bechtel Corporation photo shows field welding of the 48" diameter test line at the mouth of the McKenzie River. Both summer and winter construction conditions on perma frost will be tested, as well as operating conditions moving crude oil through the pipeline.*







*Last year IPSCO supplied 60" diameter pipe to a water transmission line at Oliver, B.C., in the Okanagan Valley. The production of this pipe, the largest diameter to date, is shown above. The spiral mill can produce pipe in diameters up to 80 inches.*

during the first quarter of the current fiscal year. In September of 1969 oil and gas well casing pipe prices were increased by 5% in Western Canada. In November, 1969 sheet prices in Canada were increased by 8%. This was followed in November, 1969 by an increase in plate prices of 7%. As of January 31, 1970, the off-shore competitive allowance of \$15 per ton on plate sold in British Columbia and Alberta will be removed. This allowance was discontinued on sheet in June of 1969. These allowances are not required under today's market conditions since there is a world-wide steel shortage and off-shore prices have firmed up with extended delivery dates.

The market for IPSCO products during the current year will continue to be strong. The forward order position of the Company will require a capacity level of production through the winter months. Additional ingot production on start-up of the third electric furnace in April of 1970 will assist in meeting growing markets for IPSCO products.

## PRODUCTION

Production of finished products increased 20% during the year under review as compared to 1968. The melt shop, with a rated annual capacity of 144,000 ingot tons per annum, actually operated at 104% of rated capacity, producing 149,806 tons of ingot. This

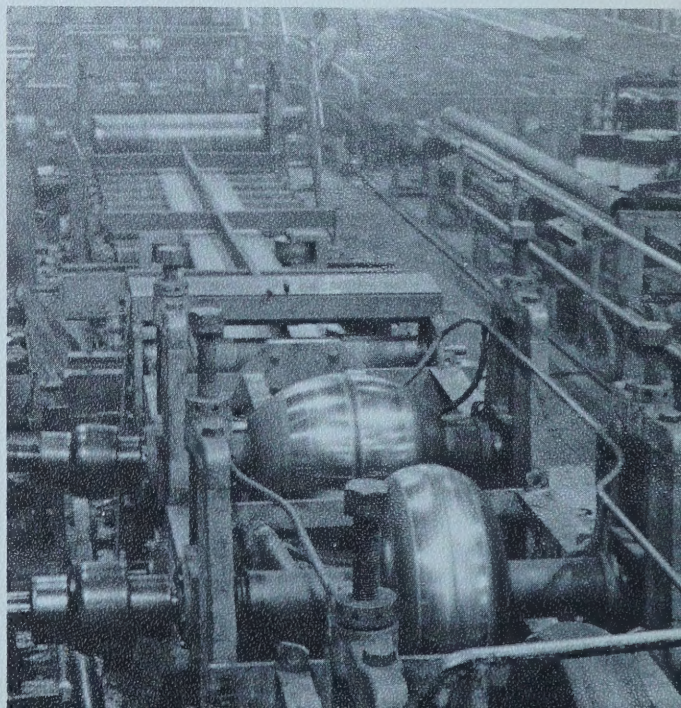
is a record production under the present two furnace operation. Mill edge skelp production, at 133,102 tons was up 11% over the 1968 level of 120,331 tons. Slit skelp, used primarily in the production of small diameter pipe, increased 27% to 36,406 tons last year, as compared to 28,572 tons in 1968.

Flat rolled products (sheet and plate) totalled 30,658 tons last year, up 14% over the 1968 production of 26,847 tons. Tubular products, including API from 2" to 16" diameter, large diameter spiral weld, casing, structurals and commercial grade pipe increased 22% in volume of production, from 70,166 tons in 1968 to a record level of 85,836 tons in 1969.

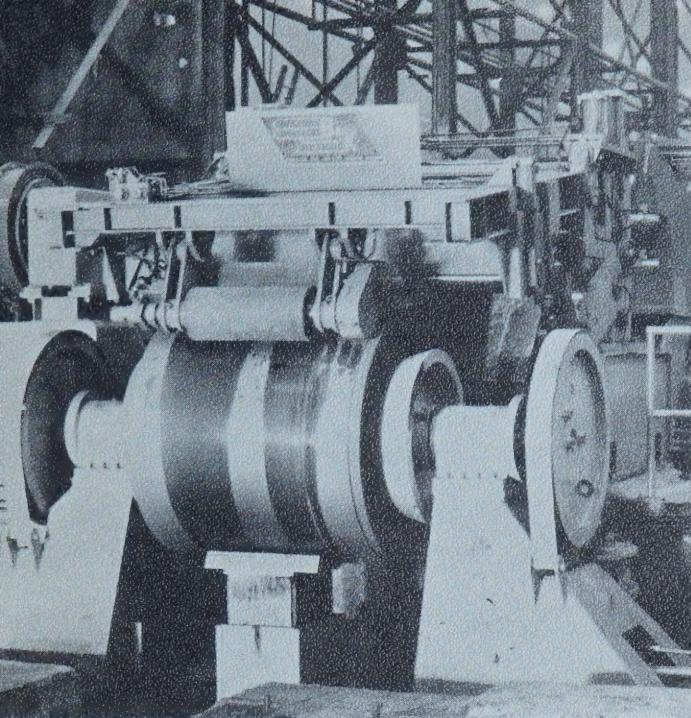
On September 14, 1969 at 8:00 a.m., IPSCO produced its one millionth ton of steel. The addition of the third electric furnace, on completion in April of 1970, will increase annual ingot capacity to 210,000 tons. The rolling mills were operated at 30% of capacity last year and will be utilized at a higher rate during the current year, once additional ingot production becomes available. The sheet and light plate finishing line operated at 31% of capacity last year. The operational level of both of these facilities is determined by the availability of ingot. The increase in ingot supply will allow an increase in the utilization of steel finishing facilities.

Last year the pipe mills at IPSCO produced a record volume of 85,836 tons of tubular products. The production of 2" to 16" API pipe increased by 8%, despite

*The production of 3" to 16" diameter pipe on IPSCO's mill represents an important product range. This equipment was completely re-built in 1967 and now has a capacity of 90,000 tons per annum.*







*IPSCO's sheet and light plate finishing line has a capacity of 100,000 tons per annum. Increased ingot supply in 1970 will permit higher utilization of these facilities, which last year operated at 31% of capacity.*

the fact that there were no major projects and production was concentrated in the smaller diameters. As anticipated, the most dramatic increase in pipe production was in the spiral weld pipe mill. Except for a two-month period last summer, the spiral mill was operated six days a week, three shifts per day. The production of larger orders of one pipe size resulted in improved efficiencies in production of spiral weld large diameter pipe. During the current year, the spiral mill production has been brought to a capacity level seven days per week and this level of production will be required for the balance of the winter months against firm orders. Similarly, the 3" to 16" pipe mill will be operated at capacity through the winter months, limited only to availability of steel.

Production costs last year were affected by product mix, with a higher percentage of API X-60 and X-65 spiral pipe being produced. These grades of steel require alloys which increase ingot and skelp costs. Higher volumes of production of other products assisted in reducing unit costs so that, on balance, production costs were reduced over those experienced in 1968. During the year under review, considerable progress was made in developing technology to meet specific customer requirements relative to Canadian pipeline conditions. The electric furnace process for producing steel provides IPSCO with facilities capable of producing the cleanest steel in Canada for the manufacture of pipe. This is an important plus factor in the pipe

industry today, with the continuing trend to higher grades of steel in API specifications.

The control available in the melt shop on steel chemistry, together with controlled rolling temperatures on the 4-Hi mill, has resulted in the development of IPSCO "fine grain" steel, particularly suited to cold climate operating conditions in pipelines. The trend to larger diameter pipelines is particularly suited to IPSCO's production capabilities. For example, last July IPSCO supplied approximately one mile of 48" diameter API X-60 pipe to a consortium of oil and pipeline companies. This pipe was installed at the mouth of the McKenzie River in perma-frost and is currently undergoing tests to determine operating conditions, both above ground and buried, for carrying crude petroleum. IPSCO was the logical choice to supply this pipe since it is the only Company in North America that can produce this diameter to the API X-60 specification.

Further progress was also made during the year in the supply of pipe for sour gas applications and the supply of API X-65 spiral weld pipe. A continuing program of research and development is necessary to ensure that the advances made over the last several years will be maintained and that IPSCO's position as a supplier of pipe to the Canadian market will be strengthened.

*The installation of IPSCO 48" diameter pipe in the Canadian north, shown in the Bechtel Corporation photo below, gives an indication of the market potential for pipe in the 1970's. IPSCO is in an excellent position to meet the trend to larger diameter high pressure oil and gas pipelines.*





## EXPANSION PROGRAM

On November 23, 1969 the Company announced a \$1,500,000 expansion program to provide additional ingot capacity and double the size of the spiral pipe mill facilities. The Melt Shop expansion involves installation of a third electric furnace which was purchased by the Company in 1966. This furnace, with a 19 foot diameter shell, will be the largest electric furnace installation in Canada. Initially, the furnace will be operated on a modified basis, increasing ingot capacity from the present level of 150,000 tons per annum to 210,000 tons by April of 1970. Further expenditures are planned for 1971 on auxiliary equipment which will permit 100 ton heats to be poured. At that time, the ingot capacity will be raised to 350,000 tons per annum. This two-phase program is desirable for two reasons:

- (a) It minimizes initial capital cost and
- (b) It provides a realistic target for market penetration over the next two years.

Excavation and foundation work is progressing on schedule and the furnace installation will be complete prior to delivery date of the furnace transformer in March, 1970. From an operations stand-point, a three furnace operation offers several economies over the present two furnace schedulings. The expansion will be accomplished without disrupting production in the Melt Shop.

The development of large diameter spiral pipe markets has now reached the stage where a second mill is required. At the time of installing the first mill, the finishing equipment was built to a larger capacity, to allow for the addition of two more pipe mills. For this reason, the purchase and installation of the second spiral mill, which will double the capacity, can be accomplished for a capital expenditure of \$1,100,000. This expenditure is equivalent to 49% of the cost of the first spiral mill and auxiliary finishing facilities.

Operating experience on the first mill resulted in the development of several important modifications which have increased operating efficiency. The mill suppliers have agreed to build in these modifications in the second spiral mill at no extra cost to IPSCO. The new mill will be completed and tested in Germany during June of 1970 and will arrive in Regina approximately July 15, 1970. Installation and mill break-in, based on the experience with the first mill, should be completed during August and commercial production is scheduled to commence September 1st, 1970.

IPSCO spiral weld has now been installed in a large number of pipeline systems and has met with excellent

acceptance both from the pipeline contractors laying the pipe and the owning companies. In supplying the large diameter pipe market, which usually involves a cross country route requiring federal government approval on licensing, the delivery requirements, once approval is obtained, are usually very demanding. For this reason, IPSCO's participation in the large diameter pipe market has been limited to the amount of pipe that can be produced within the delivery time allowed. The doubling of capacity through addition of a second spiral mill will permit greater participation in individual projects and the Sales Department is confident that no difficulty will be experienced in expanding this market.

## RAW MATERIALS AND INVENTORIES

The downward trend in ferrous scrap prices continued for the first half of the year under review. During the summer, heavy purchases for export from the North American market resulted in some price increases. This heavy demand resulted from an unprecedented level of world steel production. Besides large shipments to Japan, such non-traditional buyers as South Korea, Spain, Britain and Belgium entered the North American scrap market.

Scrap continues to be available, however, at prices comparable to the average paid over the past five years and should continue so. The continuing trend to the production of steel using the basic oxygen process by major mills in both Canada and the United States has resulted in steel scrap surpluses in recent years. This fact, together with increased generation of steel scrap, should assure an adequate supply to domestic users even during periods of high export demand which was the case last year. Meanwhile, further research into pelletized sponge iron is being conducted.

A comprehensive inventory control program, introduced in 1968, contributed to a significant reduction in investment in inventories, from \$10,331,455 to \$8,386,547. Coupled with the increase in sales, the rate of stock turnover increased from 1.50 times to 2.44. A further reduction in inventories can be expected in the coming year. In addition to disposing of slow moving items in finished goods, an improved balance as between products was achieved.

## FINANCIAL

Operations for the year resulted in a profit before depreciation and income tax of \$2,038,295. After providing for depreciation in the amount of \$990,138 and deferred income tax of \$514,120, the net profit for the year amounted to \$534,037. Income tax will



not be currently payable since depreciation in excess of the amounts recorded will be claimed for income tax purposes. The profit before deferred income tax is equivalent to \$.31 per common share and the net profit after deferred income tax is equivalent to \$.13 per common share. Allowance is made in the above calculations for dividends on the preference shares.

The shareholders' equity amounted to \$23,101,793 at August 31, 1969 as compared to \$22,656,778 at August 31, 1968. Equity per common share at year end amounted to \$7.15 for each common share, with 2,858,730 common shares issued and \$21.30 for each preference share, with 125,000 preference shares issued. It was not necessary for the Company to pay income tax for the year and by using the depreciation provisions of the Income Tax Act to best advantage, it is unlikely that the Company will incur any income tax liability during the current year.

The ratio of depreciated fixed assets to long-term debt at August 31, 1969 was 3.3 to 1 providing approximately \$3,300 security for each \$1,000 in long-term debt. The following summary shows the comparison of depreciated fixed assets to long-term debt for the past eight years:

| Year Ending<br>August 31 | Depreciated<br>Fixed Assets | Long-term<br>Debt | Ratio    |
|--------------------------|-----------------------------|-------------------|----------|
| 1962                     | \$18,728,154                | \$11,005,000      | 1.7 to 1 |
| 1963                     | 17,786,798                  | 10,105,000        | 1.8 to 1 |
| 1964                     | 22,105,992                  | 11,150,000        | 2.0 to 1 |
| 1965                     | 21,921,580                  | 12,030,563        | 1.8 to 1 |
| 1966                     | 24,100,844                  | 10,495,062        | 2.3 to 1 |
| 1967                     | 24,115,837                  | 9,916,722         | 2.4 to 1 |
| 1968                     | 26,089,343                  | 10,883,819        | 2.4 to 1 |
| 1969                     | 25,697,547                  | 7,833,840         | 3.3 to 1 |

The financial arrangements for an additional spiral weld mill and the installation of the third electric furnace have been completed with the Company's bankers. The funds for this expansion program will be expended during the current fiscal year.

The statement of source and application of funds, which is included with the audited financial statements, shows how the funds flowed in the Company for the year ended August 31, 1969. The statement shows the source of funds totalled \$2,190,607. This, together with

a reduction in working capital of \$1,607,714, provided the Company with funds for fixed asset additions of \$598,342, retirement of long-term debt of \$3,049,979 and payment of dividends on preference shares of \$150,000. As at August 31, 1969 the working capital was \$5,752,206, as compared with \$7,359,920 as at August 31, 1968. The reduction in working capital was attributable to the repayment of the bank loan of \$2,000,000 which had been borrowed to finance construction of the first spiral pipe mill. The following is a comparison of the working capital and change in working capital over the past eight years:

| Year Ending<br>August 31 | Working<br>Capital | Increase or<br>(Decrease) |
|--------------------------|--------------------|---------------------------|
| 1962                     | \$( 717,910)       | \$ —                      |
| 1963                     | 718,492            | 1,436,402                 |
| 1964                     | 1,045,387          | 326,895                   |
| 1965                     | 4,892,305          | 3,846,918                 |
| 1966                     | 7,236,269          | 2,343,963                 |
| 1967                     | 8,072,670          | 836,401                   |
| 1968                     | 7,359,920          | (712,750)                 |
| 1969                     | 5,752,206          | (1,607,714)               |

Although working capital has been reduced over the last two years, equity value per share has increased through fixed asset additions of \$3,488,722 and a net reduction in long-term debt of \$2,082,922. The earnings potential available through the expansion to production facilities is expected to result in an increase in working capital over the next two years.

As in past years, the Board of Directors has reviewed the policy with respect to dividends on common shares. Due to the condition of monetary markets over the last two years, it has been necessary to finance plant expansions utilizing a combination of interim bank financing and working capital. At such time as it becomes economically feasible to finance future growth by using long-term debt financing, a dividend on common shares will be declared. In the interim, the re-investment of retained earnings in the growth of IPSCO is necessary if the Company is to maintain its position in the market.

Respectfully submitted on behalf of the Board of Directors.

Regina, Canada,  
January 12, 1970.

J. N. TURVEY,  
President.



# INTERPROVINCIAL STEEL

(INCORPORATED UNDER THE

## BALANCE SHEET AS

### ASSETS

| CURRENT ASSETS                                                  | 1969                | 1968                |
|-----------------------------------------------------------------|---------------------|---------------------|
| Accounts receivable .....                                       | \$ 4,660,908        | \$ 2,936,420        |
| Special refundable tax .....                                    | .....               | 83,430              |
| Loan receivable .....                                           | .....               | 249,800             |
| Inventories valued at the lower of cost or net realizable value |                     |                     |
| Finished products .....                                         | 4,232,013           | 3,740,597           |
| Work in process .....                                           | 1,334,687           | 2,924,237           |
| Materials and supplies .....                                    | 2,794,747           | 3,620,621           |
| Prepaid expenses .....                                          | 336,133             | 225,926             |
|                                                                 | <u>13,358,488</u>   | <u>13,781,031</u>   |
| DEFERRED ACCOUNTS RECEIVABLE .....                              | .....               | 91,334              |
|                                                                 |                     | <u>91,334</u>       |
| <br>FIXED ASSETS at cost                                        |                     |                     |
| Pipe plants                                                     |                     |                     |
| Buildings .....                                                 | 970,323             | 941,499             |
| Machinery and equipment .....                                   | 6,857,962           | 6,497,788           |
| Steel plant                                                     |                     |                     |
| Buildings .....                                                 | 2,830,934           | 2,810,779           |
| Machinery and equipment .....                                   | 20,005,585          | 19,967,303          |
|                                                                 | <u>30,664,804</u>   | <u>30,217,369</u>   |
| Accumulated depreciation .....                                  | 5,234,611           | 4,395,380           |
|                                                                 | <u>25,430,193</u>   | <u>25,821,989</u>   |
| Land (including iron ore property) .....                        | 267,354             | 267,354             |
|                                                                 | <u>25,697,547</u>   | <u>26,089,343</u>   |
|                                                                 | <u>\$39,056,035</u> | <u>\$39,961,708</u> |



# AND PIPE CORPORATION LTD.

COMPANIES ACT OF SASKATCHEWAN)

AT AUGUST 31, 1969

## LIABILITIES

### CURRENT LIABILITIES

|                                             | 1969         | 1968         |
|---------------------------------------------|--------------|--------------|
| Bank indebtedness <b>Note 1</b> .....       | \$ 4,191,948 | \$ 3,955,609 |
| Accounts, payable and accrued .....         | 2,269,182    | 1,477,441    |
| Sales taxes payable .....                   | 197,072      | 151,672      |
| Current maturities on long-term debt .....  | 885,580      | 773,889      |
| Dividend payable on preference shares ..... | 62,500       | 62,500       |

|                                           |                  |                  |
|-------------------------------------------|------------------|------------------|
|                                           | <u>7,606,282</u> | <u>6,421,111</u> |
| <b>LONG-TERM DEBT Note 2</b> .....        | 7,833,840        | 10,883,819       |
| <b>DEFERRED INCOME TAXES Note 3</b> ..... | <u>514,120</u>   | <u>.....</u>     |

## SHAREHOLDERS' EQUITY

### CAPITAL STOCK **Note 4**

Authorized

125,000 \$1.20 cumulative redeemable convertible preference shares no par value

5,000,000 common shares no par value

Issued

|                                                         |                   |                   |
|---------------------------------------------------------|-------------------|-------------------|
| 125,000 preference shares .....                         | 2,662,500         | 2,662,500         |
| 2,858,730 common shares (1968 — 2,849,051 shares) ..... | 8,421,967         | 8,360,989         |
|                                                         | <u>11,084,467</u> | <u>11,023,489</u> |

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| <b>RETAINED EARNINGS Note 5</b> ..... | <u>12,017,326</u> | <u>11,633,289</u> |
|---------------------------------------|-------------------|-------------------|

|                            |                            |
|----------------------------|----------------------------|
| <u>23,101,793</u>          | <u>22,656,778</u>          |
| <u><u>\$39,056,035</u></u> | <u><u>\$39,961,708</u></u> |

Signed on behalf of the Board:

F. E. SHAW, *Director*

J. N. TURVEY, *Director*



# INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

## STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended August 31, 1969

|                                                                 | 1969                | 1968                |
|-----------------------------------------------------------------|---------------------|---------------------|
| SALES .....                                                     | <u>\$20,483,348</u> | <u>\$15,515,060</u> |
| EARNINGS BEFORE PROVIDING FOR THE UNDERNOTED EXPENDITURES ..... | <u>3,001,021</u>    | <u>2,182,597</u>    |
| Interest on long-term debt .....                                | 664,507             | 649,434             |
| Discount on purchase of bonds for sinking fund .....            | 46,238              | 43,690              |
|                                                                 | <u>618,269</u>      | <u>605,744</u>      |
| Other interest .....                                            | 324,010             | 227,139             |
| Directors' fees .....                                           | 20,447              | 17,600              |
| Depreciation .....                                              | 990,138             | 916,874             |
|                                                                 | <u>1,952,864</u>    | <u>1,767,357</u>    |
| EARNINGS BEFORE INCOME TAXES .....                              | <u>1,048,157</u>    | <u>415,240</u>      |
| Provision for deferred income taxes <b>Note 3</b> .....         | <u>514,120</u>      | <u>.....</u>        |
| NET EARNINGS .....                                              | <u>534,037</u>      | <u>415,240</u>      |
| Retained earnings at beginning of year .....                    | 11,633,289          | 11,368,049          |
| Dividend on preference shares .....                             | (150,000)           | (150,000)           |
| RETAINED EARNINGS AT END OF YEAR .....                          | <u>\$12,017,326</u> | <u>\$11,633,289</u> |

The accompanying notes are an integral part of this financial statement.

## AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders

Interprovincial Steel and Pipe Corporation Ltd.

We have examined the accompanying financial statements of Interprovincial Steel and Pipe Corporation Ltd. for the year ended August 31, 1969 comprising the balance sheet as at that date and the statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, the aforementioned statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at August 31, 1969 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving effect to the change in accounting for deferred income taxes as outlined in Note 3 of the financial statements. All the transactions of the company that have come to our notice have been within the objects and powers of the company.

Regina, Saskatchewan,  
November 14, 1969.

RIDDELL, STEAD & CO.,  
Chartered Accountants.



# INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended August 31, 1969

| SOURCE OF FUNDS                               | 1969                | 1968                |
|-----------------------------------------------|---------------------|---------------------|
| From operations                               |                     |                     |
| Net earnings .....                            | \$ 534,037          | \$ 415,240          |
| Non-cash charges                              |                     |                     |
| Depreciation .....                            | 990,138             | 916,874             |
| Provision for deferred income taxes .....     | 514,120             | .....               |
|                                               | <u>2,038,295</u>    | <u>1,332,114</u>    |
| <br>Proceeds from sale of common shares ..... | <br>.....           | <br>7,031           |
| Conversion of debentures <b>Note 4</b> .....  | 60,978              | .....               |
| Long-term bank loan .....                     | .....               | 1,826,000           |
| Reduction of deferred receivables .....       | 91,334              | 21,428              |
|                                               | <u>2,190,607</u>    | <u>3,186,573</u>    |
| <br>APPLICATION OF FUNDS                      |                     |                     |
| Expenditures for plant and equipment .....    | 598,342             | 2,890,380           |
| Reduction of long-term debt .....             | 3,049,979           | 858,943             |
| Dividend on preference shares .....           | 150,000             | 150,000             |
|                                               | <u>3,798,321</u>    | <u>3,899,323</u>    |
| <br>DECREASE IN WORKING CAPITAL .....         | <br>1,607,714       | <br>712,750         |
| Working capital at beginning of year .....    | 7,359,920           | 8,072,670           |
| WORKING CAPITAL AT END OF YEAR .....          | <u>\$ 5,752,206</u> | <u>\$ 7,359,920</u> |



# INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1969

### 1. BANK INDEBTEDNESS

The bank loans are secured by a general assignment of book debts and under Section 88 of the Bank Act. In addition, the bank holds a floating charge on the assets of the company.

### 2. LONG-TERM DEBT

|                                                                                                                       | Outstanding<br>1969 | 1968                |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| 5½ % First mortgage sinking fund bonds maturing December 1, 1973 (sinking fund \$625,000 per annum 1969 - 1972) ..... | \$ 3,598,602        | \$ 4,327,000        |
| 6½ % First mortgage sinking fund bonds Series B due August 15, 1985 .....                                             | 2,501,000           | 2,595,000           |
| 6½ % First mortgage sinking fund bonds Series C due August 15, 1985<br>(U.S. \$1,355,000) .....                       | 1,458,318           | 1,513,208           |
| 6% Convertible sinking fund debentures maturing December 1, 1974 .....                                                | 1,161,500           | 1,222,500           |
| Bank loan, borrowed to finance the construction of the Spiral Pipe Mill, due<br>subsequent to September 1, 1969 ..... | .....               | 2,000,000           |
|                                                                                                                       | 8,719,420           | 11,657,708          |
| Current maturities .....                                                                                              | 885,580             | 773,889             |
|                                                                                                                       | <u>\$ 7,833,840</u> | <u>\$10,883,819</u> |

The sinking fund for Series B bonds requires payments of \$94,000 on August 15, 1970 and 1971, \$107,000 on August 15, 1972 and 1973, \$120,000 on August 15, 1974 and gradually increasing to \$241,000 at maturity.

The sinking fund for Series C bonds requires payments, in U.S. funds, of \$51,000 on August 15, 1970 and 1971, \$58,000 on August 15, 1972 and 1973, \$65,000 on August 15, 1974 and gradually increasing to \$130,000 at maturity.

Sinking fund payments for the 6% convertible debentures are \$150,000 per annum December 1, 1969 to 1973. Under the provisions of the trust deeds, the company is permitted to satisfy the sinking fund payments due in whole or in part by applying credits established through conversion of debentures to common shares and by purchase of debentures. In accordance therewith, it is the company's intention to partially satisfy the payment due December 1, 1969 by applying credits of \$38,500 from conversions.



# INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1969

### 3. DEFERRED INCOME TAXES

In accordance with the recommendations of the Canadian Institute of Chartered Accountants the company has, for the first time, provided income taxes of \$514,120 on current earnings. These income taxes will not be currently payable as a result of claiming for income tax purposes depreciation in excess of the amounts recorded in the accounts. This amount is shown on the balance sheet as deferred income taxes.

Cumulative tax reductions in prior years, amounting to \$6,339,000, which result from claiming for income tax purposes depreciation in excess of amounts recorded in the accounts, have not been included in the deferred income taxes.

### 4. CAPITAL STOCK

During the year, 9,679 common shares were issued at \$6.30 per share as the result of conversion of debentures in the amount of \$60,978.

The following unissued common shares are reserved at August 31, 1969:

|                                                                                                                                                                                                                                                                                                                                           |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| (a) Shares for possible issuance upon conversion of the 6% convertible sinking fund debentures at the rate of \$6.30 to November 30, 1974 .....                                                                                                                                                                                           | 184,365        |
| (b) Shares for possible issuance upon conversion of the \$1.20 cumulative redeemable convertible preference shares at the rate of three (3) common shares for one (1) preference share convertible at any time up to, but not after, October 1, 1972. These shares are redeemable at the option of the company at \$22.55 per share ..... | 375,000        |
| (c) Options granted to the Province of Saskatchewan at \$5.00 per share exercisable up to December 1, 1973 .....                                                                                                                                                                                                                          | <u>60,000</u>  |
| Total number of shares reserved .....                                                                                                                                                                                                                                                                                                     | <u>619,365</u> |

### 5. DIVIDEND RESTRICTIONS

(a) The deed of trust and mortgage securing the first mortgage bonds restricts the payment of dividends on any class of the company's capital stock if the net working capital of the company is, or by reason of the payment of such dividend would be reduced to, less than \$4,000,000 or, the shareholders' equity reduced to less than \$12,000,000.

(b) The provisions attached to the preference shares restrict the payment of dividends on the common shares:

(i) if the preference dividends are in arrears

(ii) if the payment of such common share dividends would reduce the retained earnings below the amount of \$9,863,641.











